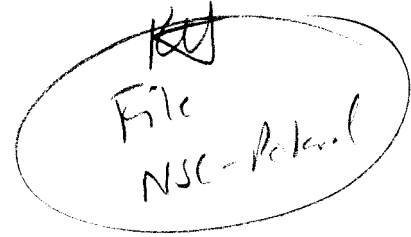


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**Poland: Financial Outlook** ☐

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Since the imposition of martial law, Poland's financial situation has deteriorated even further. Warsaw has been unable to complete the 1981 private rescheduling accord. Western governments have suspended talks on debt relief for 1982 and are also less willing to extend further credits, leaving Poland with virtually no foreign help to cover its huge 1982 debt service bill.

The likely outcomes of Poland's financial crisis have narrowed to a few possibilities. None of these will do much either to damage Warsaw's already shattered hard currency trade and financial relations, or to restore creditworthiness. The prospects remain poor that Warsaw can overcome the financial hurdles which prevent imports of the raw materials, spare parts, and semimanufactured goods that are necessary for economic recovery.

The next benchmark for Poland is Monday. Warsaw has notified the banks that 1981 interest will be paid up by then, paving the way for signature of the 1981 rescheduling agreement before the end of this month. Bankers are generally confident that the Poles will keep their promise, but interest payments will have to flow faster than they have in the past six weeks for the \$200 million still unpaid at the end of January to be paid in time.

Even if Warsaw fails to meet its deadline, banks still might not call default. Creditors have held off calling default through many months of Polish moratorium, arrearages, missed deadlines, economic slump, political turmoil, and now, martial law. Banks want to keep the trickle of interest payments flowing, and to avoid large loan writeoffs. The banks hope that Moscow will provide the money for interest due, but Polish officials have said that they expect no further Soviet hard currency help.

The likelihood of default increases, however, as the 1981 private rescheduling impasse continues and 1982 arrearages mount. Any of the 501 banks to which Warsaw has overdue interest and principal payments could declare default, and governments could take action on several grounds:

- In some cases, Warsaw has not paid the 10 percent of principal and interest due in 1981 that was not covered by the official rescheduling agreement.
- Arrears have already started to build up this year on government-guaranteed credits.
- The imposition of martial law makes the regime vulnerable to the "tank clause," which allows the Western creditors to abrogate the 1981 rescheduling agreement under exceptional circumstances.

Legal default could lead to a scramble by private creditors for Poland's assets in the West, the value of which would offset only a tiny fraction of Poland's hard currency debt. Foreign trade would be disrupted, but probably not much. After a sharp drop in 1981, trade has fallen further since martial law.

While Poland's desperate financial condition limits the additional damage that default could inflict in the short run, default probably would make Poland's return to creditworthiness and access to credits a longer and more difficult process. The stigma of formal default probably would be more difficult to overcome than a rescheduling. Moreover, suits and claims could hamstring Polish financial and commercial relations for some time.

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If the impasse continues beyond 15 February and banks do not initiate default, Warsaw will still be in a financial straitjacket. Banks will be unwilling to increase their exposure, even by extending short-term credits. Moreover, the urgent need to pay 1981 interest forces Warsaw to place an extremely high priority on paying banks rather than buying imports. With Poland's reserves depleted and export revenues apparently only a trickle, there is little left for imports.

If Warsaw manages to pay interest and other fees required by the agreement on terms reached with Western banks last fall, it will have cleared its most immediate financial hurdle. The conclusion of the agreement will be a plus for the regime—the first major economic agreement with the West since martial law. The Poles hope that cleaning up the 1981 obligation will encourage banks to restore short-term credit lines which will allow some expansion of trade.

#### **Warsaw's Financial Strategy**

Assuming that the 1981 private debt relief agreement will be completed, Poland then will have to tackle the massive burden of some \$10 billion in payments due in 1982. This year Warsaw owes \$5 billion in principal payments to Western governments and banks, and another \$1.8 billion to non-Western creditors. Interest charges are estimated at \$3.3 billion.

At this point, Warsaw apparently has paid none of its 1982 debt service, concentrating instead on covering its 1981 obligations. With no debt relief arranged, arrearages to all creditors are mounting at the rate of \$800 million per month. The Poles are likely to request a moratorium on nearly all of their debt service and choose to pay those creditors most likely to declare default or to extend credits. In practice this means that highest priority will be the payments of some \$2.5 billion in interest due to private banks.

The Poles and their private creditors can also be expected to press governments to open negotiations for debt relief on guaranteed 1982 obligations or at least to ask official creditors not to declare default. As long as nearly all Western government credits remain blocked by sanctions, Warsaw will not be able to repeat the 1981 tactic of using commodity credits guaranteed by Western governments to cover debt service. Instead of using these credits to increase imports and run a sizable trade deficit, the Poles last year opted for nearly balanced trade and diverted funds to pay interest. The Poles' recent announcement that they plan a \$500 million trade surplus for the first half of this year indicates that Warsaw has chosen to sacrifice imports in order to pay at least some debt service.



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